

Report of Examination of

**Affinity Mutual Insurance Company**  
Lima, Ohio

As of December 31, 2010

## Table of Contents

<b>Subject</b>	<b>Page</b>
Salutation.....	1
Description of Company.....	1
Management and Control:	
Board of Directors.....	1
Officers.....	2
Insurance Holding Company System.....	2
Reinsurance:	
Ceded.....	2
Assumed.....	3
Territory and Plan of Operations.....	3
Scope of Examination.....	3
Financial Statements:	
Statement of Assets, Liabilities, Surplus and Other Funds.....	5
Statement of Income.....	6
Statement of Changes in the Capital and Surplus Account.....	6
Notes to Financial Statements:	
Investments.....	7
Loss and Loss Adjustment Expense Reserves.....	7
Subsequent Events.....	7
Conclusion.....	8
Acknowledgement.....	8

Columbus, Ohio  
July 15, 2011

Honorable Mary Taylor  
Lt. Governor/Director  
State of Ohio  
Department of Insurance  
50 West Town Street, Suite 300  
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), an examination was made of

**Affinity Mutual Insurance Company**

an Ohio domiciled, mutual, property and casualty insurance company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home offices, located at 722 North Cable Road, Lima, Ohio, 45805.

A report of this examination is hereby respectfully submitted.

The Department last examined the Company as of December 31, 2005. Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2010.

**Management and Control**

**Board of Directors**

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

<b>Name</b>	<b>Principal Occupation</b>
Scott W. Boulis	Branch Manager, Mercer Landmark
Fred G. Bunke	Secretary/Treasurer, Prodeva, Inc.
Daniel R. Combs	Owner, Combs and Company
Eldon M. Helmke	Retired
Dale N. Hirschfeld	Retired

Lee W. Kaemming	Retired
Alvin J. King	President, King Feed and Supply
Gary L. Luginbill	President, Pandora Grain and Supply
David W. Seamann	Retired

**Officers**

As of the examination date, the following officers were elected and serving in accordance with the Company’s Bylaws:

<b>Name</b>	<b>Title</b>
Eldon M. Helmke	Chairman
David W. Seamann	Vice Chairman
Jack L. Brinkman	President and Secretary
Daniel R. Combs	Treasurer

**Insurance Holding Company System**

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The following organizational chart displays ownership of the Company and affiliated companies:

Affinity Mutual Insurance Company  
Ohio Insurance Services, Inc

**Reinsurance**

**Ceded**

As of the examination date, the Company had in place reinsurance coverage that provided protection for both the property and casualty writings. The excess of loss casualty per occurrence treaty covered \$1.9 million in excess of \$100,000 and the excess of loss property per occurrence treaty covered \$2.875 million in excess of \$125,000. Protection for property exposure was supplemented by catastrophe reinsurance coverage of 95% of \$4.5 million in excess of \$750,000 retention. A commercial liability umbrella quota share agreement covered 95% of the first \$1 million and 100% of the second \$1 million per risk with a \$5 million maximum per occurrence. An obligatory facultative excess of loss agreement covered commercial property and commercial packages risks with a \$10 million excess of \$3 million, other reinsurance inuring. A 100% quota share agreement covering equipment breakdown provided coverage up to a maximum of \$50 million per risk per occurrence.

All contracts reviewed contained appropriate clauses that meet the guidelines prescribed by the NAIC.

### **Assumed**

The Company does not assume reinsurance.

### **Territory and Plan of Operations**

The Company is licensed and authorized to transact business in the states of Indiana, Michigan, and Ohio.

### **Scope of Examination**

One of the purposes of the examination was to make an assessment of the financial condition of the Company as of December 31, 2010. To substantiate the various items, tests were made either by complete audits of accounts or by sampling methods prescribed by the NAIC Examiner's Handbook. In selecting the examination procedures used, due consideration was given to the importance of each account to overall solvency. Transactions occurring subsequent to the date of the examination were reviewed to the extent deemed necessary.

For each year during the period under examination, the Certified Public Accounting ("CPA") firm of Lentol, Violet, Kienitz & Company has provided an unqualified opinion based on statutory accounting principles. Relevant work performed by the CPA firm, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

The Department's property and casualty actuary reviewed the relevant work performed by the opining actuary, to report on the adequacy of the carried reserves, and to comment on any other statutory matters relating to reserves.

In addition, the following items were reviewed during the course of this examination:

1. Company history;
2. fidelity bonds and other insurance;
3. officers', employees', and agents' welfare and pension plans;
4. growth of Company;
5. loss experience;
6. pending litigation;
7. Articles of Incorporation and Bylaws.

## **Financial Statements**

The financial condition and the results of its operations for the five year period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds  
Statement of Income  
Statement of Changes in the Capital and Surplus Account

## Statement of Assets, Liabilities, Surplus and Other Funds

**December 31, 2010**

### **Admitted assets**

#### Cash and invested assets:

Bonds	\$4,107,317
Preferred stocks	320,960
Common stocks	4,915,744
Real estate	101,030
Cash and short-term investments	<u>2,652,320</u>
Total cash and invested assets	12,097,371

Investment due and accrued	60,010
Uncollected premiums and agents' balances in course of collection	335,474
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,822,350
Amounts recoverable from reinsurers	145,654
Other amounts receivable under reinsurance contracts	230,557
Current federal and foreign income tax recoverable and interest thereon	148,807
Net deferred tax asset	99,989
Electronic data processing equipment and software	<u>7,619</u>
Total admitted assets	<u>\$14,947,831</u>

### **Liabilities, capital and surplus**

#### Liabilities:

Losses	\$838,700
Loss adjustment expenses	183,195
Commission payable	374,056
Other expenses	144,373
Taxes, licenses and fees	24,054
Unearned premiums	2,980,047
Advance premium	4,074
Ceded reinsurance premiums payable	247,342
Amounts withheld or retained by company for account of others	<u>981</u>
Total liabilities	4,796,822

#### Capital and surplus:

Unassigned funds	<u>10,151,009</u>
Total surplus as regards policyholders	<u>10,151,009</u>
Total liabilities, capital and surplus	<u>\$14,947,831</u>

## Statement of Income

**For the Year Ended  
December 31, 2010**

Premiums earned	\$3,632,950
Losses incurred	1,360,673
Loss adjustment expenses incurred	439,879
Other underwriting expenses incurred	1,838,223
Total underwriting deductions	3,638,775
Net underwriting loss	(5,825)
Net investment income earned	301,771
Net realized capital gains	147,022
Net investment gain	448,793
Net loss from agents' or premiums balances charged off	(1,643)
Aggregate write-ins for miscellaneous income	790
Total other income	(853)
Net income after capital gains tax and before all other federal income Taxes	442,115
Federal and foreign income taxes incurred	52,625
Net income	\$389,490

## Statement of Changes in the Capital and Surplus Account

(In thousands)

	2006	2007	2008	2009	2010
Capital and surplus December 31, previous year	\$9,349	\$9,625	\$9,152	\$7,993	\$9,295
Net income	658	(394)	2	318	390
Net change in unrealized capital gains (losses)	(38)	(89)	(1,268)	1,030	636
Change in net deferred income tax	(94)	9	105	(48)	(171)
Change in nonadmitted assets	(4)	1	2	2	1
Cumulative effect of changes in accounting principles	(246)	-	-	-	-
Net change in capital and surplus	276	(473)	(1,159)	1,302	856
Capital and surplus end of period	\$9,625	\$9,152	\$7,993	\$9,295	\$10,151

## Notes to Financial Statements

### Investments

At December 31, 2010, the Company's investments were primarily comprised of the following:

<u>Invested Assets</u>	<u>Ratio to Total</u>	
	<u>Investments</u>	<u>Assets</u>
Bonds	34.0%	27.5%
Preferred stocks	2.7%	2.1%
Common stocks	40.6%	32.9%
Real estate	0.8%	0.7%
Cash and short-term investments	21.9%	17.7%
Totals	<u>100.0%</u>	<u>80.9%</u>

The Company's investments were in compliance with Section 3925.08 of the ORC.

### Loss and Loss Adjustment Expense Reserves

The Company's retained Steven M. Jokerst, F.C.A.S, M.A.A.A; and William D. Hansen, F.C.A.S, M.A.A. A, of Oliver Wyman Actuarial Consulting, Inc, who opined on the adequacy of the loss and loss adjustment expense reserves for the years covered by the examination. The Department's Actuary, Mary Miller, F.C.A.S, M.A.A.A, reviewed the detailed calculations for the reserves as of December 31, 2010.

Based on the above-mentioned analysis, it was determined that the loss and loss adjustment expense reserves were reasonable as of December 31, 2010.

### Subsequent Events

There were no material subsequent events.

### Conclusion

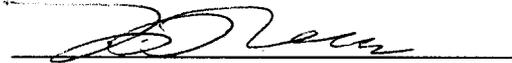
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2010, and is summarized as follows:

Total Assets	<u>\$14,947,831</u>
Liabilities	\$4,796,822
Surplus as Regards Policyholders	<u>10,151,009</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$14,947,831</u>

### Acknowledgement

In addition to the undersigned, the following representative of the Department participated in this examination: Methuselah E Nyangoro, CFE, CPA.

Respectfully,

  
\_\_\_\_\_  
Floyd D. Meeks, AES, CFE, CISA, CPA  
Examiner-In-Charge  
Ohio Department of Insurance

  
\_\_\_\_\_  
David A. Cook, CFE  
Assistant Chief Examiner  
Ohio Department of Insurance

**Verification**

As required by Section 3901.07 of the ORC, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2010.

[Signature]      08/03/11      [Signature]      8/3/11  
Examiner-In-Charge      Date      Assistant Chief Examiner      Date

State of Ohio  
County of Franklin

Personally appeared before me the above named Floyd D. Meeks, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 3 day of August, 2011.

Elizabeth Chase  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
My Commission Expires **MAY 22, 2012**

State of Ohio  
County of Franklin

Personally appeared before me the above named David A. Cook, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 3 day of August, 2011.

Elizabeth Chase  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
My Commission Expires **MAY 22, 2012**